

Voltage Support Service

Update to Business Issues Committee

12/14/05

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3 Appeals to NYISO BOD from 10/11/05 Decisions of the MC

1. IPPNY appealed the MC decision not to adopt 6.1% increase in VSS compensation for 2006 and annual inflation-related increase thereafter
2. LIPA appealed the MC decision not to extend VSS compensation to non-generator suppliers of VSS, including Cross-Sound Cable
3. The NY TOs appealed the MC decision not to extend current VSS rate through March 31, 2006, and requested 6-month extension of current VSS, tariff amendments to adopt certain informally-agreed upon amendments, and FERC Dispute Resolution Service assistance to negotiate a global settlement of all remaining VSS issues

Board Decision

- Current VSS rate should not expire 12/31/05
- VSS is an Ancillary Service required by FERC and is important to system reliability
- The NYISO submitted an exigent circumstances filing pursuant to FPA § 205 and Article 19 of ISO Agreement
 - Filing made on December 5, 2005 would extend current rate from 120 days from that date, or April 4, 2006
 - NYISO put customers on notice that the VSS rate is subject to revision – retroactivity of 2006 VSS rate to January 1, 2006
 - FERC Notice of Filing on 12/7/05 set December 12/15/05 deadline for comments

Board Decision –(continued)

- Deferred decision – “The Board believes that further negotiations can and should lead to agreement on a revised VSS rate”
- NYISO BOD noted that the parties worked productively with each other in 2005 to reach informal agreement on a number of issues, and to narrow differences on others
- BOD stated “it appears to us that the parties’ positions may not be as entrenched as they may appear”
- BOD requested that “the parties resume their negotiations to reach an agreement on a revised VSS rate and resolve related open issues”
- BOD directed NYISO staff to continue to collaborate with MPs and “to consider inviting the FERC Dispute Resolution Service to meet with it and the stakeholders to determine whether and in what manner the FERC team can facilitate resolution of the VSS issues.”

FERC Dispute Resolution Service

Richard Miles, Director of the FERC DRS will attend the MSWG meeting on December 16th to kick off negotiations

- DRS can offer:
 - FERC Staff expert to serve as a neutral evaluator of the stakeholders' decisions
 - Assistance with selection of a mediator and with the mediation process
 - FERC ALJ to serve as a Settlement Judge
 - A combination of the above

Board Follow-up on VSS

- NYISO Staff directed to make status report at January BOD meeting
- NYISO Staff directed to report agreement on VSS 2006 rate or, by not later than February meeting, to report “on the specific reasons why agreement was not reached and the respective positions of each involved party”
- In absence of agreement, BOD concerned the MPs “are requested that the Board determine a cost-of-service rate which, by its nature, regulatory agencies are best equipped and are arguably obligated to set”
- Further FERC filing if necessary to prevent lapsing of VSS rate. BOD will consider all of its options, including whether to request that FERC commence a formal evidentiary proceeding

Areas of Tentative Agreement

- Compensation for non-generator sources of Vars (upon resolving New York Association of Public Power's concerns)
- Compensation based on net output vs. gross production
- Compensation based on net generation additions since 2002, to increase the VSS rate base
- VSS capability testing protocols
- Deleting outdated tariff language regarding VSS payment to non-utility generators

Unresolved issues

- 2006 VSS rate – inflation adjustment
- Methodology for determining a cost-based VSS rate for years 2007 and beyond
- Determination of system VSS needs, including locational requirements
- Locational allocation of VSS costs according to local needs, generator location, load growth and/or other methods
- Compensation for both lagging (producing Vars) and leading (absorbing Vars)

Food for Thought

- *What is a reasonable scope of issues to decide in negotiations?*